RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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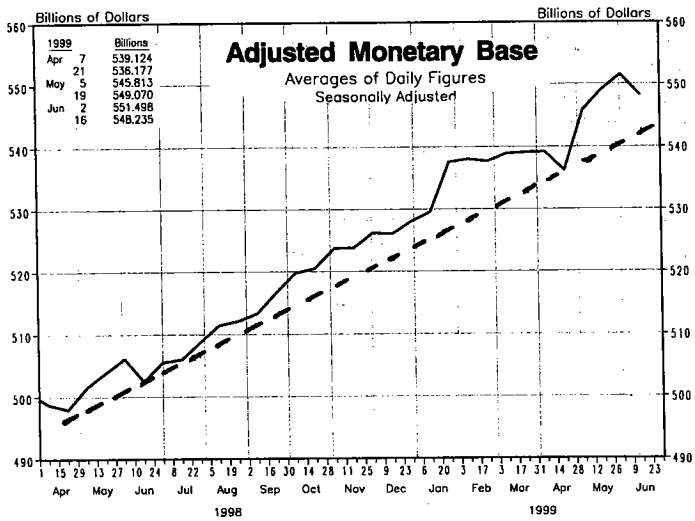
June 30, 1999 **LETTER 1281**

OBSERVATION: I note on *CNBC, Barron's, WSJ,* almost every financial publication, the talk, all the talk, is of this stock, that stock, earnings expectations, what the Fed is thinking, stocks, stocks, stocks. Nothing about the major trend of the market, nothing about significant price levels, nothing about yields or overvaluation, nothing about bull or bear markets. I think it's amateurish -- and ominous. After all, **the major trend of the market** is the single most important consideration in investing. And the commentators are oblivious of it.

BIG PICTURE: There's no doubt in my mind, the US stock market is in a "bubble" mode. The Fed has been pumping up the money supply month after month -- on the following rationale: the world is in recession and the US is the buyer of last resort. Therefore, it is up to the US to buy, buy, buy -- and in taking in the world's merchandise, the US is saving the world (and itself) from collapse and depression.

The creation of dollars has been monumental, unprecedented. In the last 12 months, the US has created **over half a trillion new dollars.** Nobody's ever seen anything like this dollar explosion before. These multi-billions of dollars had to find some place to go (besides, of course, going for payments overseas). The flood of dollars has also sifted into US real estate, into the US stock market and into US luxury items. Meanwhile, foreign goods poured into the US while US paper exited into foreign coffers. Result: America's trade deficit has been going through the roof and US stocks have levitated to the point where most provide tiny yields or no yields at all.



The problem: How does the Fed get us off the back of this giant, inflated paper-tiger, a tiger that the Fed alone has created? That's undoubtedly what Greenspan is pondering, as he hints at pushing up rates just a bit. But note that Greenspan, who 30 months ago (with the Dow at 6500) warned about "irrational exuberance," is no longer issuing warnings about the stock market. Greenspan knows how dangerous it is to take away the punch bowl with the stock market in the stratosphere. What to do? Just hope that the market settles into a "harmless," long-term trading range. Of course, the odds on that happening are slim, very slim indeed.

June 18 DJIA 10855.56; PTI 5365; A-D Ratio +3.76
June 25 DJIA 10552.56; PTI 5347; A-D Ratio +3.28
Dow Yield: 1.62%; Dow Price/Earnings: 25.6
Dow 144-day MA: 9914; Dow 34-day MA: 10734
Dow Times Book Value: 6.61; PTI 89-day exp. MA: 5346
Percentage of Undervalued Blue-chips: 5%
Gold 34-day MA: 268

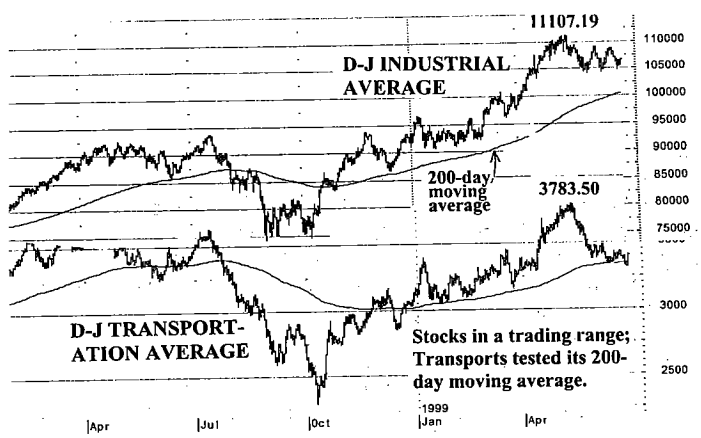
TODAY: Here's the big picture as I see it. Up to now, the US has been able to avoid across-the-board inflation (in view of the exploding money supply) **because our overseas suppliers have been exporting DEflation to the US.** World over-capacity, world over-production, the vicious global battle for exports, all of these have worked to hold inflation down in the US, hold pricing power down.

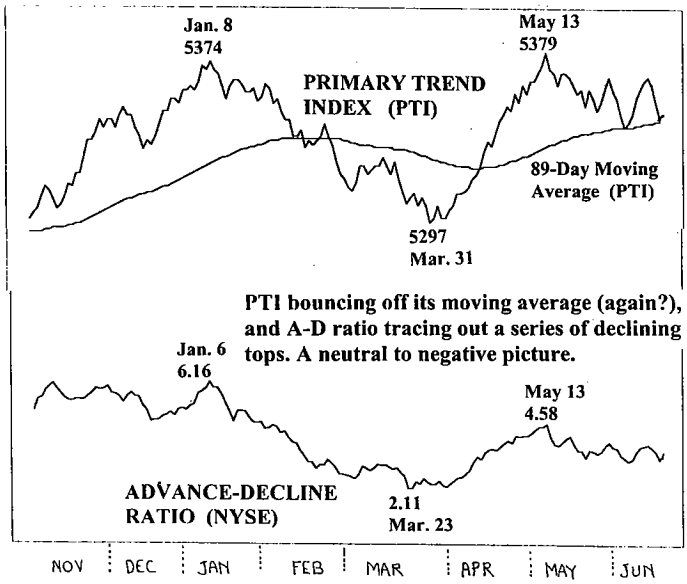
I believe those conditions are **beginning to change.** You can see it most clearly in the action of the Japanese Nikkei stock average. The Nikkei hit a low of 12,690 on October 5, 1998. Nevertheless, a massive head-and-shoulder bottom was in the process of formation. The upside breakout level was at 16,700 -- or if you want to give it every benefit of the doubt -- at the 17,300 level. Last week the Nikkei broke out and rallied over 17,800. Result: Japan's stock average has turned decisively bullish. The Nikkei is saying that the worst is over for Japan. Japan is the locomotive for Asia. If Japan is recovering, Asia will be recovering.

This means that the "cover" for inflation in the US is being removed. With billions of dollars floating around the US, with consumers buying their heads off (never mind that there are no liquid savings), with the US stock market still in the clouds, with a labor shortage, the stage is set for an across-the-board rise in inflation in the US.

How can we be sure of that? Well, we can't, but why guess? We'll monitor the trend of inflation via the bonds and maybe via gold (although gold still has to contend with central banks' threats of gold sales whenever gold appears ready to rise).

Stocks are now at their highest valuations in history -- for this reason I don't believe this market can take any concerted rise in the inflation rate. One analyst that I follow (he's been very good at predicting inflation) sees 4% to 5% inflation coming up. He's an expert on the Fed's actions, and I can see why he says that, but frankly, I don't see how that prediction can be fulfilled.

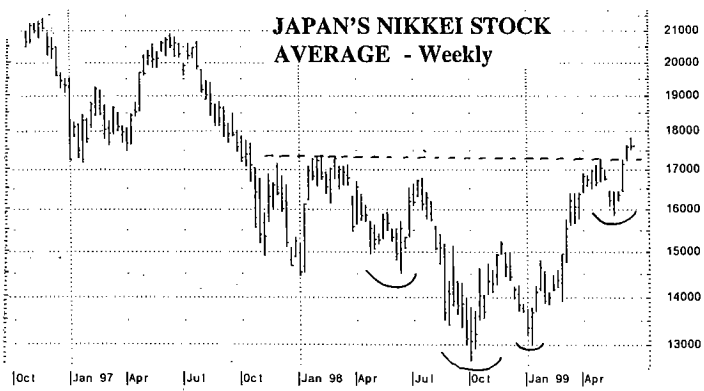




I can envision rising inflation figures appearing, but **if they do, the stock market will tank -- as it will fear higher rates.** And with the US consumers up to their eyeballs in debt, with US consumers buying a lot of "nonsense" items that they don't really need, any big decline in stocks would almost certainly trigger a sharp cut-back in consumer buying. And that would spell trouble with a capital T. Remember, two/thirds of the US Gross Domestic Product comes from consumer buying.

So here's what I think we should watch for: **(1)** A continued improvement in the Japanese and the Asia business picture -- and a rising Nikkei stock average. **(2)** The beginning of adverse inflation statistics. **(3)** The bond market turning chaotic with bond yields steadily rising. I might add that an avalanche of corporate bonds are now coming to market, and this too will put pressure on bonds. **(4)** A possible rise ("the miracle?") in gold.

In the meantime, every nation in the world wants to jump-start or jazz-up its economy (the US economy is already thoroughly jazzed-up). The pros are not stupid. They see the picture. Money from the US has been pouring into the Japanese market. The rising Nikkei emboldens foreign exchange (FOREX) traders to buy the yen as well ("Japanese recovery, hey, buy the yen").



But the Japanese authorities want none of it. The Japanese authorities are saying, "Higher yen? Forget it, we want a weak yen and expanding export sales." So the Bank of Japan has been buying dollars ($20 billion in the last few weeks) in an effort to keep the dollar strong against the yen. Whether Japan can thwart the fundamentals and continue to keep the yen weak, I doubt. But they certainly are trying.

So that's the picture as I see it. The inflation that we've been experiencing in stocks, real estate, rentals, and luxury goods could be ready to spread out into all areas of the general economy. If that happens, Alan Greenspan will be forced to take away the biggest, the fattest punch bowl in US economic history. He'll be doing that with the S&P selling at a record 34 times earnings and with the S&P dividend yields at a minuscule 1.28%. Should be interesting.

MARKET: So where are we at the moment? I believe we're in a trading range. The bottom of the trading range is **10400.** The top of the trading range is **11110**. That's a range of around 710 points. If the Dow can break out of the upper range, above 11110, well, the market should go higher and maybe "the tree will grow to the sky." If the Dow breaks out on the downside, below 10400 -- then I think we'll be facing real trouble. I base that on the fact that the Transports have already broken below their own comparable low part of the range.

In the meantime we watch the re-positioning, the shenanigans, the endless swinging back and forth as the market searches for a major new stimulus. So far, it doesn't appear to have found one.

Here in 1999, I think we've seen two outstanding market characteristics. The first is that the big-cap stocks have tended to rally -- then hold on any weakness. Sure there have been "poor actors" such as Pfizer, Gillette, Ford, GM, Fannie Mae, Disney and Procter, but on the whole the big-cap stocks have given a good account of themselves.

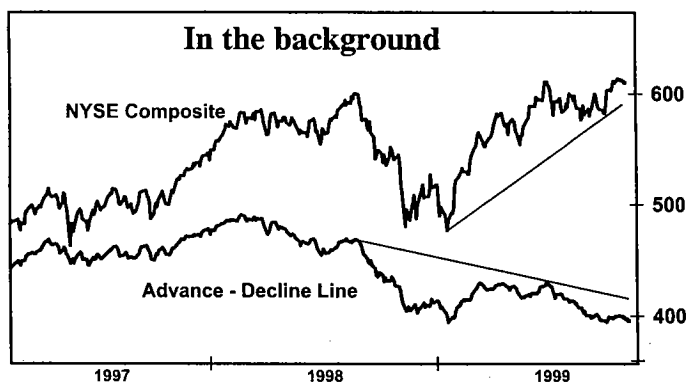
The second characteristic of this market has been the continuing rotten performance of the main mass of stocks as expressed by the poor breadth. The advance-decline ratio is the measure of market breadth. The A-D ratio topped out in April of 1998, declined all through the remainder of '98 and into '99. The A-D ratio hit a low on March 23, 1999. But despite the rally in the big averages during April, May and June, as this is written, the A-D ratio is still within a few points of its March 23 extreme low.

Danger? I see three elements of potential danger in this market.

(1) The first is a **potential rise in inflation.**

(2) The second is the fact that this is the **most overvalued market** in history. It's in no position to deal with a shock.

(3) The third element of danger is the **extended period of price/breadth divergence.** I discussed this in detail in Letter 1279, but just in case you missed that study I'm including the chart of Dow and the A-D ratio below. It's a black cloud hanging over the market. And it's well to remember that extended periods of price/breadth divergence (which is what we're seeing) have never ended well.

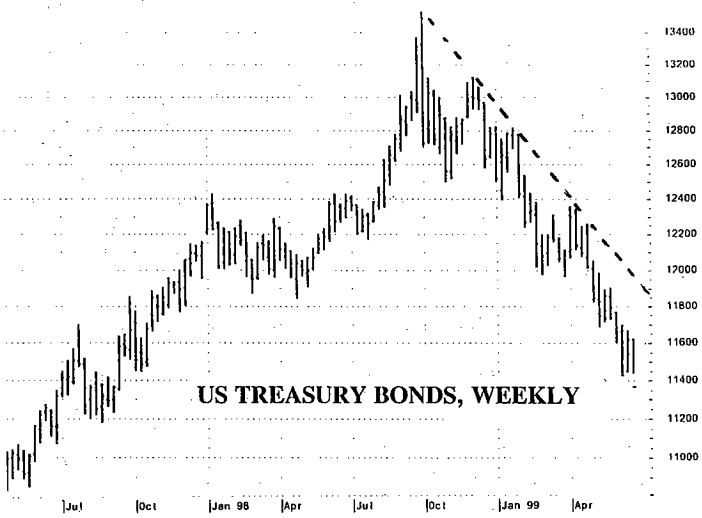


BONDS: All the current talk, rumors and market gossip is about "What is the Fed going to do?" It really doesn't matter that much what the Fed is going to do -- because the bond market has already done the timid Fed's work for it, as noted from this weekly chart of the 30-year T-bond futures. The bonds are now adjusting to what the market sees ahead for inflation, and as I see it, the BIG question is whether the declining bonds and rising

interest rates will "break" the stock market. One old-time observer suggested to me, "I think bonds will continue down until they DO break the market." Now there's a thought.

If the stock market cracks badly, I believe it will impact on consumer spending, and if that happens, we could be heading for the "unthinkable," the "surprising," the "shocker," a recession as consumers are caught between their sinking assets (stocks) and their mountains of debt.

If there is a recession, then I would expect bonds to turn around and head for new highs. At any rate, that's the weird scenario that I think could materialize. It's worth thinking about.



INVESTMENT POSITION: Play the bubble or play it safe? This is a tough market to make money in. With the S&P selling at 34 times trailing earnings, 10-year T-notes yielding over 6% and with breadth declining, that's not surprising. Remember the admonition, "First do no harm." That's, of course, a medical creed, but it can also be applied to investing.

You loved great stocks at the highs like Disney and Coke and Gillette? Disney was a market darling at 42. It's now down 28% from its high. The high for Coke was 88. It's now down 28%. You loved Gillette last March at 64. It's now down 35%. With stocks currently at their highest valuation in history, it's easy to lose money, too easy (and I'm not even talking about the net stocks).

So as an investor, where are the bargains today? They're very hard to find. Actually, the "bargains" may be in near-term interest rates. There's nothing wrong with waiting around while you're getting 6% on your money. It's a lot better than losing 25% on blue-chip stocks that even Warren Buffet owns.

The market isn't stupid. It sees economic improvement around the world. That's ammunition for forthcoming inflation. The bond market sees it too -- and it adjusts with higher rates. Higher rates put pressure on stocks, and the trading range thesis gains credence.

So, do you want to buy high-priced, dividend-less stocks that could be locked into a trading range? That's the question you have to ask yourself. Personally, I'm opting for the "do no harm" thesis. And that means putting money into short-term T-bills and two-year notes.

NOTES & QUOTES: I started Dow Theory Letters in 1958. Back in those days there were just a few market Letters, mostly survivors of the Great Depression. I started writing for *Barron's* that same year (I wrote over 30 articles for *Barron's* during the '60s, '70s and '80s). The letter-writing industry expanded during the '60s and '70s, and it really flourished during the '80s.

How did I get my subscribers? I got a great many from *Barron's* readers who were interested in Dow Theory and technical analysis. For promotional purposes, I traded "names" with other services. I could usually tell how well my friends in the investment advisory business were doing by how many offers I would receive for name exchanges (often I would exchange up to 25,000 names with another service for promotional purposes). This year, the exchange offers have dribbled away to almost nothing. I'm afraid this is telling me something. I think it's telling me that the independent advisory letter business is fading away, maybe even dying. And there are reasons for it. Too many letters are either unoriginal, poorly written, or consist of just long lists of stocks to buy.

Let's face it. You're able to get all of that and more from gratis brokerage house reports. And now with the Internet you can get free charts, free information, free stock analyses -- and all of it instantaneously. Where does that leave the independent advisories? It doesn't leave them in a very good place, in my opinion.

I've been lucky. I took over Julian Snyder's *Moneyline* subscribers in 1989 (Julian had eye trouble). Then last year I took over Marty Zweig's subscribers (Marty just got tired of writing). On top of that my renewal rate has always been one of the highest in the industry (can we still call it an industry?). With it all, I now have about the highest number of subscribers I've ever had in the 41 years that I've been writing these Letters. However, I'm beginning to feel like a dinosaur. And the way things are going, I wouldn't tell my own son to get into the investment advisory business.

How have I managed to survive? First, I'm fascinated with the business, and I always have been. I hope that comes across. Second, I'm fascinated with trends -- stock trends, economic trends, social trends, world trends. Third, I've got a survival mentality, which means that I'm basically an optimist, but I can smell trouble a mile away. Fourth, I guess (at least people tell me this) that I'm a pretty good writer. Fifth -- I think I'm "centered." In other words, I'm not carried away by extreme optimism or extreme pessimism, and I consider a good life more important than making a fortune in the stock market. Yet I realize that to have a good life, it certainly helps to be financially secure. And to be financially secure, you've got to have an **investment philosophy.** My philosophy has always been -- "first, do no harm," or to put it another way, don't do something really stupid. Second, make money slowly -- don't be carried away by the latest fad. Third, **understand the power of compounding**. Fourth, when you're wrong (and everybody in this business is wrong at times), **don't stay wrong.** Fifth, be "centered," which means, develop a philosophy for living -- living with your investments and living with what you're doing in this world. I've put it this way in the past, "What profitith a man if he makes a fortune and dies at age 50?" Finally, have a good time with what you're doing. If you don't love what you're doing -- change it. This is the only life you've got, it's not a dress rehearsal, it's the real thing. Honestly, if I didn't like writing these Letters, I'd drop the whole thing like a bad habit. If you love your work, it isn't work, it's fun.

Well, that's my view of the future of the independent advisories, the so-called letter-writers. Times change, industries change, communications change. Very frankly, I'm not optimistic about the future of the independent advisories. And if the industry does fade away, it will be a shame. Because the independent letter-writers are beholden to nobody but their own subscribers. They can and should say whatever they want to say. Question: Will I

be one of the last of a maverick, independent, dying breed? I hope not. I really do.

Hey, there are a few exceptions to the above. One is my friend, Jim Grant, who some years ago started *Grant's Interest Rate Observer*. Then he added *Grant's Municipal Finance*. And most recently he came out with *Grant's International*. One thing about James -- he writes like a whiz. And he's always interesting (30 Wall Street, NYC 10005).

* *

Compaq Computer announced that it's cutting its basic PC price by $100 to $599. Furthermore, it's loading its PCs with software for three Internet access services -- including a new one of its own. Compaq offers unlimited net use for $17.99 a month or $143.88 a year. This compares with AOL's $21.95 a month for unlimited use. NetZero offers free net use for registration and an agreement to view advertising. The above hints at why I'm not enthusiastic about the future of AOL.

* *

The following is from the *Christian Science Monitor* (June 14 -- by the way the *Monitor* is an excellent paper with much original writing and news analysis): *"Soon more than 25 million Americans will gain access to the Internet with only a TV and a set-top box, like the ones cable TV companies provide today. That box will provide faster Internet access, extra phone lines for pennies a month, and interactive TV -- where you can choose among 500 channels, talk back to hosts, buy products or services, and ask for more information about events. It also means monthly telephone, cable, TV and Internet service bills will be wrapped into one. 'I think people will be drawn to one service for one price,' says AT&T spokesman Mark Segel. But it's likely to be a whopper of a price: $200 a month, says Brian Adamik, a consultant with the Yankee Group."*

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Now a few economists are talking about a single world currency. Richard Cooper, a Harvard economist predicts than in a decade or two there will be no more dollars, yen or euros -- just a single global currency. What will they call it -- the "Globi," the "Uni"? Is it really coming? Nothing would surprise me. But listen to this: there are already rumors that Italy wants to drop out of the euro currency group. That would be a shocker.

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According to the latest Commerce Dept. data, California's economy has surpassed $1 trillion. This puts it within shooting distance of the five largest economies outside the US. The California economy now accounts for 12.7% of the entire US Gross Domestic Product. If California was an independent state it might find a seat at the G-7 summit.

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Valuations: At the bottom of the page is the **Barnes Risk Index.** It's a mathematical model based on short and long interest rates, and one-year trailing corporate earnings and dividends for the S&P 500. The index is adjusted to a scale of 0 to 100, zero = lowest risk. This Index is available daily on the great net site, decisionpoint.com.

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I guess I'm finally getting used to today's volume on both the NYSE and the Nasdaq. Back in 1939, average daily volume on the NYSE dropped to 954,000. The nation was still suffering from the Great Depression and stocks, to say the least, were out of fashion. The period from 1939 to 1942 was one of the greatest bargain periods for the accumulation of dividend-paying blue-chip stocks in Wall Street history. In 1942, average daily volume sunk to 455,000. That was the year when it looked as though the Allies might lose the War; it was the year when the Dow dropped to the famous 92.92 low. After the War, I went back to college at NYU. I got my degree in 1947 and around that time I started to watch the market on a daily basis. Volume in '47 was running around 750,000 to maybe 1.5 million on a big day. People were very conservative in '47, there was a lot of talk about the "coming post-war depression," and most of the trading, as I remember, seemed to be in conservative utilities.

Now with the market seemingly in the clouds, with average dividend yields of 1.25%, with stocks selling at over 30 times earnings, we're in a different world, certainly in a vastly different world than the one I was watching back in 1947. It's a world built on confidence and advanced science and the Internet and massive debts and very little in the way of personal savings. Will this new world "work?" It has so far, and the fascinating part of the whole picture is watching to see how events unfold.

My son recently asked me what I had learned in all my years of dealing with markets. I told him I had learned two things above all. One was **change.** The only thing you can count on in the markets is change. Events will change, markets will change, whatever you're convinced is constant will almost surely change. So nothing is constant where the market is concerned (but, of course, human nature never changes, a phenomenon which gives us bull markets and bear markets).

The second thing I learned is the power of compounding. I'll say it again (older subscribers may be tired of hearing this) but the "royal road to riches is compounding." There's nothing like it. It's a mathematical certainty. What's far from certain, of course, is the average investor's ability and discipline to do what's required to stay on the road to compounding. Most people spend their time trying to beat the market. Those who compound don't have to beat the market, they know how to use the market and the "magic" of compounding -- see "Rich Man, Poor Man" on the home page of my web site (www.dowtheoryletters.com) for more on compounding.

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Japan and cars: There are tens of thousands of "paper drivers" in Japan. These are people who have taken the written test, the road test, have their faces photographed but don't even own a car. Roads are incredibly congested in Japan, huge jams on the weekends, and many roads in Japan are so narrow cars can barely get through (mirrors are retractable on many Japanese cars). Parking spaces are hard to come by and expensive, often $5 every half hour. Overnight parking violations can carry fines of up to $1600, and if the police tow your car away, add $260 or more. Payment of parking tickets often must be accompanied by a letter of apology, in which the offender must acknowledge the gravity of his offense and promise never to repeat it. Three tickets in three years and you lose your license for a month. A parking place in Tokyo can cost $500 to $800 a month, and gas for filling up a small Honda can cost at least $50. On top of everything else, car owners must pay inspection fees every two years that can easily exceed $1,000 and sometime push $20,000, depending on the car's condition. So why own a car in Japan where the excellent transportation system can take you almost anywhere in a land where the only bargain prices seem to be the cost of public transportation?

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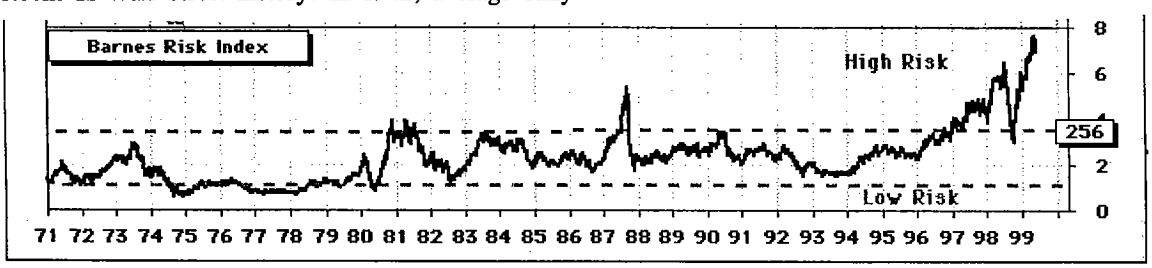
When I was a kid during the latter part of the Great Depression (late 1930s), executives would hope to "make $5,000 a year," and to be a "$10,000-a-year man" was a dream. As for capital,



most people didn't have any. Later in the '60s it was generally conceded that if you had $1 million in capital you were set for life. In the '70s, the figure rose to $5 million. Hold it, in the June 14 *New York Magazine* an article entitled, "The Magic Number," we're told that "the number that comes up a lot is $10 million." What do I think? I think that in places like New Orleans or Dubuque $3 million will mean you're rich. In most places in California (not LA or San Fran.) $5 million will make you rich. In NYC or LA the $10 million figure sounds about right. All of these figures are based on a 6% return on 10-year T-notes. In other words, $5 million at 6% provides an income of $300,000, and that will give you a happy living, free from financial worries, in most parts of the nation. You may get by with $300,000 in NY or LA or San Francisco, but you won't be hob-nobbing with the upper crust. No, it takes the big $10 million to live and eat in the best places in America's high-priced cities. Blame it on the Fed. The dollar started its long journey down the drain around 1915, just about the time the Fed took over as guardians of our money. This from the *New York* magazine piece regarding living in NYC: "$10 million is the back-of-the-envelope calculation, assuming the most conservative investments, and adjusting for inflation. The bottom line is $500,000 annually -- just enough to cover the vacations, monthly expenses, and tuition bills for your basic Tuscany-and-Hamptons-going Fifth Avenue-dwelling, Yalie-bearing New Yorker." **Russell Comment**: Start saving now, and maybe some day you too can live in New York, the congested, stressful, high-cost, great restaurant, great culture, center of the civilized world.

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Each day I receive a pile of questions from subscribers, many through the mail, many via e-mail. I'll try to answer a few.

Question: I checked your 89-day moving average, and my figures don't check with yours. I show 5334 for the MA. How come?

Answer: We use a front-end exponential moving average. This type of moving average gives additional weight to the front end of the series. In a "regular" moving average every figure receives equal weight.

Question: How far ahead will the market "look" or discount?

Answer: In general, I believe the averages will look three to six months ahead of events. But there have been cases where the averages have discounted events up to one year ahead. **What about the current situation?** When the Averages lapse into a trading range with the bull still in the box, they are saying that, "The situation is probably still OK, but we're backing off because we want to mull over and re-think the situation."

* *

Want to live in an income tax-free state? Here they are: Washington, Alaska, Nevada, S. Dakota, Wyoming, Texas, Tennessee, Florida, New Hampshire. But wait -- it isn't all free. There are some problems. Florida has a wealth tax and lot of insects, others have high property taxes. The only real tax-free bargain state is Nevada. If you can take the heat, this is the place with the least government greed and grabs. By the way, Las Vegas is the fastest growing city in the nation; population now 1.2 million. What's happening? Las Vegas is filling up with Californians who are fleeing California's damnable high taxes. I'll say it again, to live in California you've got to love it (and I do) -- because they'll tax you to death in California -- and if you leave the state they'll follow you and harass you if you owe so much as a five dollar bill.

* *

Here's what Bill Gates sees in our future. And he just could be right. "At home you'll operate your PC by talking to it. It will automatically back up all your information, update its own software and synchronize itself with your TV, cell phone and all the devices on your home network. The refrigerator in your kitchen will know how well stocked it is, suggest recipes based on what's available, and order more food from your on-line grocer. Your TV will double as an interactive shopping mall, letting you buy advertised products or clothes you saw in a sitcom. If you don't want to watch TV, you'll be able to read an electronic book that knows your favorite authors and automatically downloads their latest novels. If you decide to read one of them, your bank account will be debited."

* *

Why did Clinton pick Yugoslavia as the place to save? Two obvious reasons: Yugoslavia is in Europe and Yugoslavia is very visible. There are other much worse spots. In the Southern Sudan at least 1.5 million people have died. In Rwanda the deaths add up to about one million. Add 500,000 people who died in Angola, 150,000 in Liberia and at least 40,000 in the Ethiopian-Eritrean war and you have a ghastly collection of global disasters. Furthermore, these disasters have been going on for quite some time. And I haven't heard Clinton or Albright worrying about any of them. Latest -- the war hasn't pushed up Clinton's ratings at all. Ah well, maybe next time.

* *

Belated statements: Two weeks ago Al Gore announced to the world that Clinton's behavior was "inexcusable." Where were you two years ago, Al? . . . Hillary Clinton tells New Yorkers that "I've always been a Yankee fan." Hillary a life-long Yankee fan? That's not the kind of lie that will endear Hillary to New Yorkers.

* *

How much of what is ordered on the Internet? Here are the 1998 figures (these are the latest): Computer products -- 38%; travel -- 31%; books -- 13%; gifts/flowers -- 5%; entertainment -- 4%; music -- 4%; food/drink -- 4%; apparel/footwear -- 2%; jewelry -- 2% . . . Now, the big and growing problem for states -- no taxes on net sales. So here's the states' doomsday scenario: tax revenues shrink as net sales increase, downtown merchants driven out of business and, consequently, the property tax base declines, unemployment increases, reducing payroll taxes. Politicians, always hungry for more tax money will be faced with this choice -- cut programs or raise other taxes.

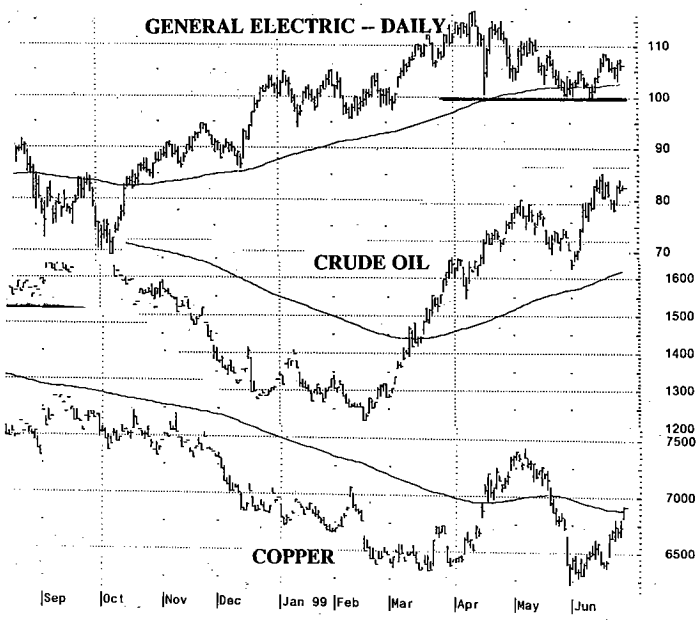
* *

At the University of California at Berkeley 45% of the new freshman class is Asian, 40% is white. Since 1980, 25% of the new high-tech companies started in Silicon Valley are run by ethnic Chinese or Indian immigrants. When I visited my son at Berkeley a few months ago on a Sunday, I passed one of the Berkeley study halls. It was packed with Asian students.

STOCKS (turn to page 6 for the charts): I keep talking about GE as maybe the single most important bellwether stock in the US. GE is huge, it has a huge capitalization, it's in finance and manufacturing, and it's widely owned by funds, pension funds, and the public. If ever a stock was "supported" by large interests, GE is it. Look at how many times GE has come down to 100 -- and held. This stock is just "not supposed" to break 100. I believe that when GE gets down to 100, large holders buy it. At any rate, this is a stock to watch. If, IF, GE breaks below 100, you'll know that this market is in trouble and that the "big boys" are pulling out.

Are the world economies turning up? It seems so. Two very sensitive items are copper (which is used in just about all manufacturing and building) and oil (which is used everywhere for heat and energy). Here are the daily charts. Copper is now testing its 200-day exponential moving average and crude has left its 200-day MA far behind. Prognosis -- copper looking better and oil clearly bullish.

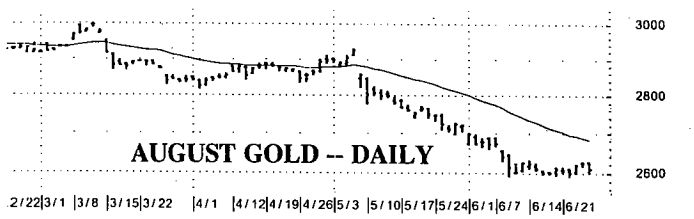
Now let's turn to the nets. First IIX, the Internet Index. After a double-top in April, IIX turned down, and in June, tested its 200-day MA. The MA held. Latest is a rally, but no new high yet. So let's call it a trading range, with a series of declining tops.



Next I'm showing what I guess is the most widely held of the net stocks -- AOL. This stock acts pretty much like the IIX Index, so I guess you can say that as AOL goes, the whole group goes and vice versa.

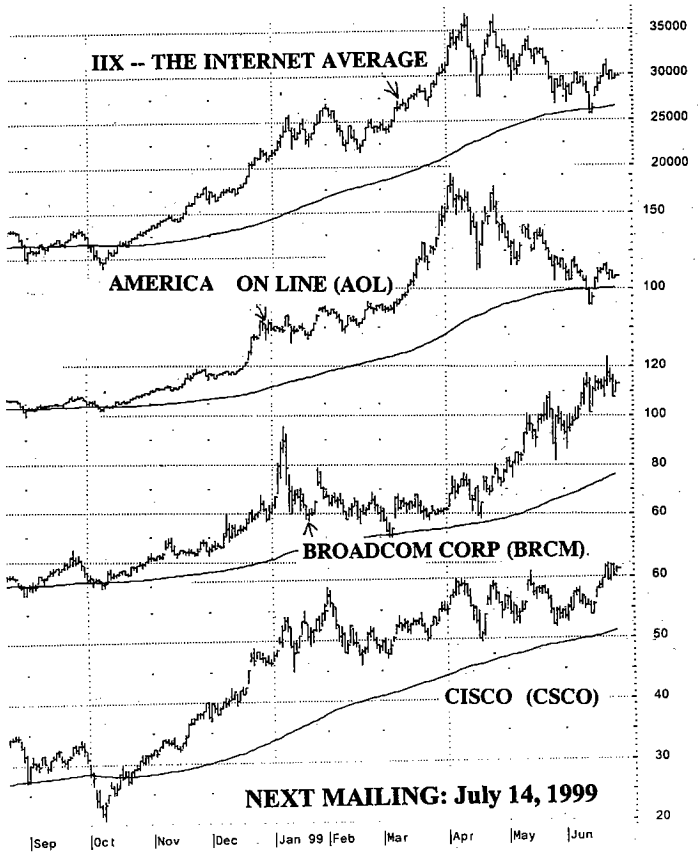
Next two winners, which are acting a lot better than the IIX. The first is Broadcom Corp. (BRCM). This stock is a leader in wide-band technology -- it's acting a lot better than the average net stock, and I consider it one of the best of the net lot. Obviously, the stock has done very well.

The fourth stock is considered a blue-chip in the net universe, and I'm referring to Cisco. This stock manufactures a good deal of the items (such as servers) that are used by every net stock. Cisco has also done much better than the typical net stock, and many consider CSCO the General Electric of the Internet business.



GOLD: Try as it might, gold just doesn't seem to get anywhere. I thought for a while last week that gold was ready to rise along with copper and oil. No such luck (are we depending on luck now?). The chart of August gold shows a rather unusual "line" forming. What does this mean? Are large "interests" accumulating gold at the 260 area? Or is this a line of distribution? Can't tell at this point. We do know that a lot of gold has been sold forward and sold short. I've thrown in the 34-day moving average, which now comes in at 268. That would be the first upside target. Gold, gold, you're making me old.

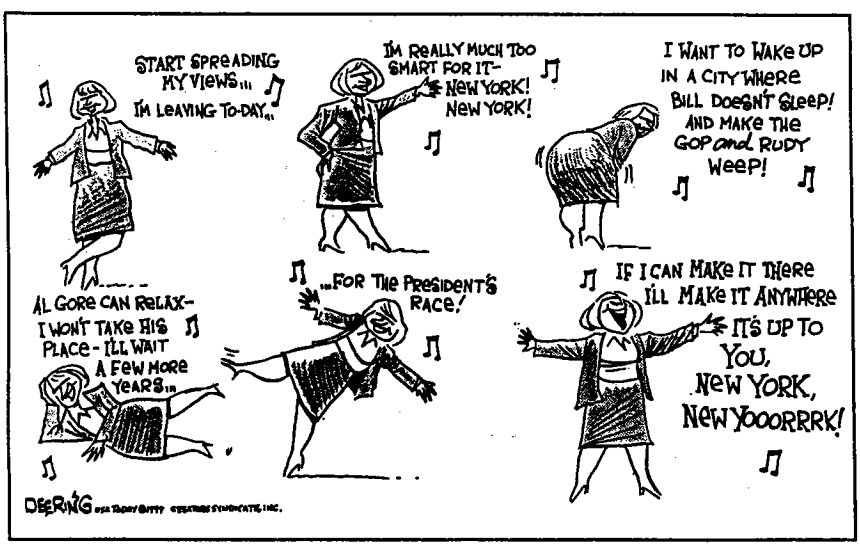
OK, all you fun-minded New Yorkers, here's your chance to sing along with Hillary. Words on the right.



LATE NOTES: The stock market's been moving in lock-step with the bond market. The bonds declined through April, May and most of June. The stock market did the same. The bonds hit a low on June 24 -- then began to rally. The stock market did the same.

The Dow hit a record high of 11107.19 on May 13. From there the Dow headed down, recording a low of 10466.93 in May 27. On June 11 and again on June 24 the Dow tested the critical 10460 level. Each time the Dow failed to break below 10460. With the bonds now holding or rallying, my feeling is that the Dow will continue to fluctuate in its trading range. With bonds having bottomed, the Dow may even be ready to test the upper levels of the trading range. The recent high was struck on June 19 in the Dow 10850 level. It would not surprise me to see the Dow test that level again.

In the meantime, my PTI declined, literally touching its 89-day moving average on June 24 -- but refusing to break below it. From there the PTI rallied. This also suggested that the Dow was ready to rally, and on Monday, June 28 the rally began.


START SPREADING MY VIEWS... I'M LEAVING TO-DAY...
I'M REALLY MUCH TOO SMART FOR IT- NEW YORK! NEW YORK!
I WANT TO WAKE UP IN A CITY WHERE BILL DOESN'T SLEEP! AND MAKE THE GOP and RUDY WEEP!
AL GORE CAN RELAX- I WON'T TAKE HIS PLACE - I'LL WAIT A FEW MORE YEARS...
...FOR THE PRESIDENT'S RACE!
IF I CAN MAKE IT THERE I'LL MAKE IT ANYWHERE IT'S UP TO YOU, NEW YORK, NEW YOOORRRK!
DEERING